STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 08/15)

Fiscal Year	Business Unit	Department	Priority No.
2016-17	0845	California Department of Insurance	3

Budget Request Name	Program	Subprogram
0845-003-BCP-DP-2016-A1	0520 – Regulations of Insurance Companies and Insurance Producers	0520028 – Licensing

Budget Request Description

Health Network Adequacy

Budget Request Summary

The California Department of Insurance (CDI) requests an increase in Special Fund expenditure authority of $424,000 in FY 2016-17 and $367,000 ongoing to support 1.0 permanent position and funding for health network adequacy reviews, and to implement a cloud-based analytics software-as-a-service (SaaS) to analyze health network adequacy reports received by the Department pursuant to title 10, California Code of Regulations (CCR) §2240.5.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed
☐ Yes ☒ No	

Does this BCP contain information technology (IT) components? ☒ Yes ☐ No *If yes, departmental Chief Information Officer must sign.*	Department CIO David Noronha	Date 2/10/2016

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
Alena Pivnitskaya	2/10/2016	Julia Cross	2/10/2016
Department Director Erika Sperbeck	Date ~~2/10~~/2016	Agency Secretary N/A	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
Original signed by Jeff Carosone	4-1-16

BCP Fiscal Detail Sheet

BCP Title: Health Network Adequacy

DP Name: 0845-003-BCP-DP-2016-A1

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	1.0	1.0	1.0	1.0	1.0
Total Positions	**0.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Salaries and Wages						
Earnings - Permanent	0	110	110	110	110	110
Total Salaries and Wages	**$0**	**$110**	**$110**	**$110**	**$110**	**$110**
Total Staff Benefits	0	51	51	51	51	51
Total Personal Services	**$0**	**$161**	**$161**	**$161**	**$161**	**$161**
Operating Expenses and Equipment						
5301 - General Expense	0	8	2	2	2	2
5304 - Communications	0	1	1	1	1	1
5320 - Travel: In-State	0	1	1	1	1	1
5320 - Travel: Out-of-State	0	1	1	1	1	1
5324 - Facilities Operation	0	9	9	9	9	9
5340 - Consulting and Professional Services - External	0	10	0	0	0	0
5346 - Information Technology	0	233	192	192	192	192
Total Operating Expenses and Equipment	**$0**	**$263**	**$206**	**$206**	**$206**	**$206**
Total Budget Request	**$0**	**$424**	**$367**	**$367**	**$367**	**$367**

Fund Summary

Fund Source - State Operations						
0217 - Insurance Fund	0	424	367	367	367	367
Total State Operations Expenditures	**$0**	**$424**	**$367**	**$367**	**$367**	**$367**
Total All Funds	**$0**	**$424**	**$367**	**$367**	**$367**	**$367**

Program Summary

Program Funding						
0520028 - Licensing	0	424	367	367	367	367
Total All Programs	**$0**	**$424**	**$367**	**$367**	**$367**	**$367**

BCP Title: Health Network Adequacy

DP Name: 0845-003-BCP-DP-2016-A1

Personal Services Details

	Salary Information								
Positions	Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
5795 - Atty III (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
Total Positions				**0.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**

Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4
5795 - Atty III (Eff. 07-01-2016)	0	110	110	110	110	110
Total Salaries and Wages	**$0**	**$110**	**$110**	**$110**	**$110**	**$110**
Staff Benefits						
5150900 - Staff Benefits - Other	0	51	51	51	51	51
Total Staff Benefits	**$0**	**$51**	**$51**	**$51**	**$51**	**$51**
Total Personal Services	**$0**	**$161**	**$161**	**$161**	**$161**	**$161**

Analysis of Problem

A. Budget Request Summary

The California Department of Insurance (CDI) requests an increase in Special Fund expenditure authority of $424,000 in FY 2016-17 and $367,000 ongoing to support 1.0 permanent position and funding for health network adequacy reviews, and to implement a cloud-based analytics software-as-a-service (SaaS) to analyze health network adequacy reports received by the Department pursuant to title 10, California Code of Regulations (CCR) §2240.5.

B. Background/History

In 2002, the Legislature enacted Assembly Bill (AB) 2179 (Cohn), which amended California Insurance Code (CIC) section 10133.5 to require that CDI issue a network adequacy regulation in order "to ensure that insureds have the opportunity to access needed health care services in a timely manner." As amended, CIC section 10133.5 also required that CDI periodically review its network adequacy regulation to determine whether changes in the health insurance marketplace required regulatory changes in order to further the intent of CIC section 10133.5.

During 2014, CDI undertook a review of the network adequacy regulation, as required by CIC section 10133.5(g) and determined that the initial regulation no longer adequately ensured that consumers had access to health care services in a timely manner due in large part to industry responses to market changes resulting from the new requirements of the Affordable Care Act. In order to address this problem, CDI substantially revised its network adequacy regulation on an emergency basis in January 2015.

Legal Branch – Health Policy Approval Bureau
Resource History
(Dollars in thousands)

Program Budget	FY 2011-12 [1/]	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 (Projected)
Authorized Expenditures [2/]	$1,370	$1,263	$1,599	$1,811	$2,148
Actual Expenditures [3/]	$606	$1,335	$1,605	$1,796	$2,148
Authorized Positions [4/]	13.0	13.0	19.5	18.5	19.0
Filled Positions [4/]	5.8	13.9	14.0	11.3	19.0
Vacancies	7.2	0.0	5.5	7.2	0.0

[1/] HPAB formed in February 2012; Actual expenditures and filled positions represents Feb-Jun months only.
[2/] Based on Allotments.
[3/] Based on FM13 year-end budget reports.
[4/] Based on Salaries & Wages (7A).

Legal Branch – Health Policy Approval Bureau
Workload History

Workload Measure	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 (Projected)
Health Insurance Network Filings	4	3	27	17	90

C. State Level Considerations

This proposal does not affect other state agencies. However, implementation of this proposal will enable CDI to obtain the same type of software tool presently utilized by the Department of Managed Health Care (DMHC), which utilizes SaaS similar to that described in this proposal. The CDI's current inability to process this workload timely and effectively could result in harm to California consumers.

Analysis of Problem

This proposal is consistent with CDI's mission/Strategic Plan to ensure vibrant insurance markets. By assuring adequate, timely access to health care, this will protect and support consumers, which is one of the Commissioner's highest priorities.

The California Department of Technology (CDT) reviewed CDI's Stage 1 Business Analysis submittal and determined that since the project risk and cost were relatively low, the information technology project would be delegated back to CDI. CDT stipulated the condition that if cost or risk changes significantly, CDI must report the change to CDT to determine if CDT needs to provide oversight or consulting to the project.

D. Justification

Throughout 2014, CDI identified persistent and serious problems with health insurance network access to doctors, hospitals and other medical providers, as health insurers reduced their provider networks and/or shifted to offering Exclusive Provider Organization (EPO) health insurance products with no out-of-network benefits except for emergency room visits. This resulted in some consumers having difficulty obtaining appointments and having to travel long distances to receive in-network medical care. In response to these problems, CDI revised its network adequacy regulation on an emergency basis in January 2015. As a result of these changes to the regulation, health insurers must now submit annual network adequacy reports, as well as complete data regarding all providers and facilities in their networks. This additional data includes data files containing the insurer's complete network data, reports concerning mental health and substance use disorder networks, and specific information regarding organ transplant services, triage, telemedicine, and consumer and provider surveys. The provider network for each product sold by an insurer may be different from the network of other products sold by that insurer, so the Department is receiving multiple filings from most insurers.

Health Analytics

As a result of the revised emergency regulation, CDI will now annually receive raw data files containing the complete network information for each insurer (provider name, specialty, location, etc.) for each of the provider networks it utilizes. The problem is without the type of software tool CDI seeks to obtain, the ability to analyze the files to audit compliance with current requirements, and to detect network adequacy compliance issues at the individual insurer and specialty level (such as inadequate numbers of cardiac surgeons in a county compared to the total available) to determine compliance with the regulatory standard that networks must provide access to medically appropriate care from a qualified provider (10 CCR 2240.1(e)) is compromised.

Thus, CDI is requesting $238,000 (includes $40,000 for set up fees and $10,000 for IT consulting services) in FY 2016-17 and $188,000 ongoing for implementation of a cloud based SaaS network adequacy analytic service that will pull the network adequacy data directly from the National Association of Insurance Commissioners (NAIC) data repository. This will enable CDI to annually audit the accuracy of the approximately 90 network adequacy reports submitted by insurers by using the insurers' network databases to run compliance analyses against CDI's network adequacy standards.

To assist the CDI in its oversight, the network adequacy report must include information on the insurer's rates of compliance and noncompliance with the network adequacy and timely access standards. Network adequacy data will be pulled by an analytics vendor from the NAIC data repository. This requires an information technology (IT) system interface between the analytics vendor and NAIC and an interface between the analytics vendor and CDI. Each system interface must be assigned an owner. For this project, CDI owns both interfaces since the analytics vendor is contracted on behalf of CDI.

An interface owner is responsible and accountable to control the design, development, system integration, testing, and evaluation of the interface. In order to manage the interface properly, CDI's Administration & Licensing Services Branch - Information Technology Division (ITD) will provide staff resources and contracted resources with expertise in interfacing IT systems. These resources will ensure that the IT system interfaces are compatible and interoperable with the operating systems and that the availability of the interface is acceptable for CDI's use. The CDI ITD oversight will protect the department from expending resources on a system that does not work as required by the program.

In addition to enabling CDI to audit current compliance at levels of detail not achievable by review of static insurer-provided reports, the cloud based analytics SaaS will also enable CDI to detect trends in network design problems, so as to inform CDI decisions regarding further revisions of its network adequacy regulation. For example, the requested cloud-based analytics SaaS will make it possible for CDI to determine whether different time and distance standards should be developed for urban and rural areas in future revisions of the regulation, by comparing actual availability of various categories of providers and facilities against the database of all available providers and facilities developed and maintained by the vendor providing the cloud-based analytics SaaS. It will also facilitate the identification of broad vs. narrow network designs to track the impacts of these respective designs on consumer access through comparison to consumer complaints.

The software will enable CDI to assess which insurers are successful in providing the full range of necessary primary and specialty health care by comparing each insurer's network against a database of available primary and specialty health providers and facilities maintained by the vendor of the cloud-based analytics SaaS. This analysis will allow CDI to determine, for example, that an insurer did not avail itself of a reasonable percentage of available practitioners of a particular specialty in a given area, so that CDI may have a factual basis to challenge the insurer regarding the adequacy of its network.

The requested resources are critical because CDI currently lacks the capacity to undertake the thorough analysis of this data that would be necessary to detect some of the network shortcomings that the software can identify. The data files are too large for effective manual analysis which is why other state departments utilize analytic SaaS. Without this capability, CDI must rely on the accuracy of the compliance reports submitted by the insurers, and cannot audit the reports based on the complete network files. Further, without access to the SaaS, CDI does not have the data or analysis tool that would make it possible to compare the number of contracted network providers in a given specialty to the available pool of such specialists within a county.

Staffing for Network Adequacy Review

This proposal also seeks staff resources to perform the analyses described above, as well as to provide compliance review of the additional network compliance information received as a result of the revised regulation. In addition to the network data files discussed above, under the revised regulation, CDI also receives the following new network information, which will require review and, if deficient, communication and resolution with the filing insurer:

1. A separate annual narrative report from each insurer regarding mental health and substance abuse network adequacy.
2. Report regarding adequacy of networks for organ, tissue and stem cell transplant to be adequate and identified by provider and address.
3. Attorney evaluation standards for selection and tiering of providers & facilities to assure compliance with anti-discrimination statute.
4. Corrective action plans for areas in which a company's network fails to provide sufficient access.
5. Each company's compliance policies and procedures.
6. Provider contracts for compliance with new requirements provisions regarding provider contracts (which we never reviewed previously although they were required to be filed).
7. New 10-day notice of termination of provider contracts, along with review of insurer's demonstration that network remains in compliance.
8. Reports regarding rate of compliance/non-compliance as part of annual report.
9. Other requirements of new annual report, including regarding triage, telemedicine, and health information technology; annual covered person and provider surveys with comparison with prior year's surveys; and data regarding use of out-of-network services, emergency room use, enrollment on county-by-county basis, and lists of all providers.

10. Company requests for waivers from access requirements, based on new, more extensive criteria in revised regulation.

The review of network adequacy reports, as well as working with insurers on network adequacy compliance based upon the new regulation, is complex and will require expertise in health insurance and health issues, which is a particular area of legal knowledge and experience acquired over years of legal practice in those areas. The Attorney III must understand the various types of health services, health providers, interaction between health systems and insurers, and health service contracting. The Attorney III will evaluate waiver requests, provide written objections to waivers, negotiate with insurers over network issues and compliance, and substantiate any waiver recommendations as being compliant with our laws and regulations. Additionally, the Attorney III will write-up an evaluation and determination on insurer network adequacy waivers in a public document, supported both by facts and authority. They will also manage the IT issues with the ITD, NAIC, and the analytics vendor and negotiate vendor services on behalf of the Department.

In FY 2014-15, 17 network filings were submitted. As the revised regulation now requires annual filing, instead of filing only when new form approval authority is sought, CDI estimates that approximately 90 annual network reports will be received each year. This represents a 400 percent over FY 2014-15. It is also anticipated that due to the new network information that is required, staff review time will double. Prior to the revision of the regulation, the average time for reviewing and analysis on each health network adequacy report was approximately 12 hours. As a result of the regulation revision, CDI estimates that the amount of time for review will increase to approximately 25 hours. This new workload will add approximately 2,046 additional staff hours.

Thus, CDI is requesting $186,000 in FY 2016-17 and $179,000 ongoing for 1.0 permanent Attorney III to perform the necessary adequacy reviews and waiver analyses. The staffing resources are necessary to undertake the additional volume of reviews and increased review time. This influx in workload cannot be absorbed by CDI's existing staff dedicated to health policy form review. Some redirection of resources will have to occur in the current fiscal year; however, redirecting resources from other critical tasks cannot be sustained without negatively impacting other workload and inevitably increasing processing time and backlogs of health policy form reviews.

If the request is not approved, CDI will lack the resources needed to effectively achieve the consumer protections mandated by CIC section 10133.5; consumers will be at risk for networks that are inadequate to meet their medical needs, increasing the potential for either deferred care, with resulting adverse health outcomes, or increased, unexpected out-of-network expenses, with resulting financial impact on consumers. For some consumers, such unexpected medical expenses can result in bankruptcy. Additionally, not having adequate resources to assure insurers are in compliance with network adequacy requirements would be contrary to the law (CIC section 10133.5) and the ensuing emergency regulation establishing these requirements.

Each network adequacy submission currently generates $990 in revenue. Thus, this regulation has the potential to create approximately $72,000 in additional revenue each year from the estimated 90 reports to be submitted.

Note: A Stage 1 Business Analysis (Network Adequacy Requirements System) was submitted to the CDT on July 20, 2015 and CDT delegated the IT project back to CDI for oversight and implementation. The CDI will complete the appropriate sections the Stage 2 Alternative Analysis, per the State Information Management Manual (SIMM) Section 19, to support decisions made for project implementation and collaborate with CDT as necessary to ensure successful implementation. CDI will also revise/update the Stage 1 Business Analysis to coincide with the information provided in the Stage 1 Alternative Analysis.

E. Outcomes and Accountability

The objective of this proposal is to ensure that CDI has the proper resources to perform the vigorous health network analysis required to ensure that insureds have the opportunity to access needed health care services in a timely manner. The expected outcomes are:

1. Every network filing submitted will undergo a complete review of all narrative reports. All networks will demonstrate compliance with time-and-distance standards for primary care providers, specialists, and hospitals, as well as compliance with appointment waiting time standards. Staff will also review for adequacy of mental/behavioral health and substance abuse networks and organ transplant networks. All insurers will demonstrate network compliance and adequacy, or obtain CDI approval of a waiver request.
2. CDI will perform network analytics on every network filing submitted, evaluating at least two adequacy measures, such as: (1) analysis of the degree to which facility-based providers are available on an in-network basis in-network facilities, comparing the availability of in-network specialists in a selected sample of specialties against the total pool of those specialists available within selected rural and urban geographic areas served by the network and, (2) analysis of the extent to which insurers are successful in providing the full range of necessary primary and specialty health care by comparing each insurer's network against a database of available primary and specialty health providers and facilities maintained by the vendor of the cloud-based analytics SaaS.
3. All identified deficiencies will be objected to and resolved before file completion.
4. All insurer waiver requests will be evaluated and determined.

CDI has a time/activity reporting system to track staff time, and will therefore monitor the amount of time spent on the associated activities to ensure resources are used appropriately.

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve as requested.

Pros:

- A cloud-based SaaS approach would provide the most cost-effective solution based on market research.
- Provides staffing resources to comply with State law/revised regulations.
- Would reduce the burden of operating the analytic system on CDI.
- Creates efficiencies by providing CDI with the capacity to analyze the files, to audit compliance and to easily detect network adequacy compliance issues.

Cons:

- Additional costs to the Insurance Fund.
- Increases position growth in State Government.

Alternative 2 - Develop network adequacy analytics software within CDI.

Pros:

- Would not involve an outside vendor.

- Would house all data within CDI.
- Could provide future flexibility to develop other measures of adequacy.

Cons:

- CDI lacks the expertise to develop analytics software.
- An analytic approach developed in-house would be less likely to yield results comparable to the results of using the SaaS.
- Were CDI to develop its own software, it would have to create databases of available providers and facilities across the state, while such databases are already available from outside vendors.

Alternative 3 - Develop a portal user interface to integrate with a vendor analytics product.

Pros:

- Development and implementation risk is transferred to the Primary Vendor.
- Vendor will bring in software expertise.
- Would house all data within CDI.

Cons:

- Additional staff will be needed to perform the analysis.
- Knowledge capital leaves when vendor completes implementation.

Alternative 4 – Deny the request.

Pros:

- Insurance Fund resources will not be impacted.
- No position growth in State Government.

Cons:

- Inability to comply with State law/revised regulations.
- This alternative would hinder CDI's efforts to detect network adequacy compliance issues which in turn would impair CDI's ability to protect consumers and ensure they have access to health care services in a timely manner.
- This would prevent CDI from performing network analysis at a more granular level, and would prevent CDI from detecting network adequacy problems that were below the level of sensitivity of the current manual review.

G. Implementation Plan

Effective July 1, 2016, funding will be available to implement a cloud-based analytics SaaS and provide the staffing needed to perform and interpret the analyses and obtain corrective action, as needed, from insurers. The SaaS contract will be finalized and staff trained by August 2016. By September 2016, all network reports submitted by the June 1, 2016 deadline will have undergone networks analytics as described in Outcome (E)(2), above.

H. Supplemental Information

Below is a breakdown of the special resource needs associated with this proposal:

Item	FY 2016-17	Ongoing
Information Technology - Software	$228,000	$188,000
Consulting & Professional Services - External	$10,000	$0
Total	**$238,000**	**$188,000**

I. Recommendation

Alternative 1 – This is the only alternative that provides the resources necessary to perform the vigorous health network analysis required, in the most efficient and effective manner.

Denial of this proposal will not provide the tools necessary to review and analyze additional network adequacy reports which would prohibit CDI from ensuring that insureds have the opportunity to access needed health care services in a timely manner as required by State law and regulations.